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GENERAL FUND REVENUE PERFORMANCE

The following table details actual 2003-2004 General Fund revenue collections as compared with the modified budget estimates:

TABLE A
2003-2004 GENERAL FUND REVENUE SUMMARY
COMPARISON OF BUDGET TO ACTUAL
(\$000's)

Category	Modified Budget	Budgetary Basis Actual	Variance
Property Tax	\$ 96,444	\$ 95,649	\$ (795)
Sales Tax	128,818	130,698	1,880
Transient Occupancy Tax	6,118	5,712	(406)
Franchise Fees	32,406	31,712	(694)
Utility Tax	64,979	68,455	3,476
Licenses and Permits	67,657	69,590	1,933
Fines, Forfeitures, and Penalties	12,734	13,908	1,174
Use of Money and Property	8,491	8,313	(178)
Revenue from Local Agencies	42,613	41,862	(751)
Revenue from the State of California	48,636	46,316	(2,320)
Revenue from Federal Government	7,188	2,908	(4,280)
Departmental Charges	26,972	27,350	378
Other Revenue	19,312	15,773	(3,539)
Subtotal	562,368	558,246	(4,122)
Overhead Reimbursements	32,023	32,534	511
Transfers	36,089	40,496	4,407
Reimbursements for Services	18,270	17,586	(684)
Subtotal	86,382	90,616	4,234
TOTALS*	\$ 648,750	\$ 648,862	\$ 112

* Excludes Beginning Fund Balance

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

The General Fund revenue performance for 2003-2004 is discussed in the following section. This discussion includes a comparison of the 2003-2004 actual revenue receipts for each of the major revenue categories to the modified budget and descriptions of significant variances. In addition, comparisons with the 2002-2003 collection levels are typically included to indicate collection trends and to provide historical perspective.

As shown in Table A, total revenue received in the General Fund in 2003-2004 was \$648.8 million. This total represents only a slight increase of \$5.3 million (up 0.8%) from the actual 2002-2003 collections (\$643.5 million), but was off only slightly from the 2003-2004 Modified Budget level (\$112,000 or 0.02%). This comparatively flat performance from last year reflects one-time transfers in the Transfers and Reimbursements category in the current year combined with increases in the following revenue categories: Property Tax, Sales Tax, Utility Tax, Licenses and Permits, Fines, Forfeits, and Penalties, Departmental Charges, and Other Revenue. Growth in those categories was partially offset by decreases in the following revenue categories: Transient Occupancy Tax, Franchise Fees, Use of Money and Property, Revenue from Local Agencies, and Revenue from the State of California.

The variances from the modified budget levels, as well as changes from prior year levels are better understood through a discussion of the status of the individual General Fund revenue categories, as provided in the following section.

Property Tax

Property Tax receipts for the 2003-2004 fiscal year totaled \$95.6 million. This collection level was off only slightly (0.8% below) the budgeted estimate of \$96.4 million, and represented growth of 2.2% above prior year actuals of \$93.6 million. The growth over the prior year was entirely driven by increases in Secured Property Tax receipts.

Secured Property Tax receipts of \$78.5 million were 7.1% above (\$5.2 million) the 2002-2003 level and just under one percent below (\$854,000) the 2003-2004 modified budget estimate. It should be noted that the property tax levy as of December 31, 2002 was the basis for the Secured Property Tax collections in 2003-2004. The two largest factors driving this growth were continued high valuations due to property turnovers and the addition of new properties.

SB 813 Property Tax receipts of \$3.9 million were 22.3% below (down \$1.1 million) the actual 2002-2003 level, but above (\$533,000) the 2003-2004 modified budget estimate of \$3.4 million. The SB 813 Property Tax component represents the retroactive collection of taxation on reassessed valuation from the period of resale to the time that the Assessor formally revalues the property. The lag time for recording SB 813 transactions is typically several months.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Property Tax (Cont'd.)

According to the County Assessor's Office, the decrease over the prior year reflects a shift from the sale of homes that have been owned for long periods to sales of homes that had been more recently purchased, resulting in lower changes in reassessed values. This trend is disturbing as it may be an indicator that the decline in jobs has begun to result in more people selling recently purchased homes in order to leave the area, or due to an inability to sustain the cost of home ownership as a result of their employment status. This may also explain why we are seeing a simultaneous decline in unemployment and in the number of available jobs.

The Unsecured Property Tax is assessed on major business equipment items and is subject to annual depreciation adjustments. Current and Prior Unsecured Property Tax receipts of \$12.1 million decreased by 13.9% (\$2.0 million) compared to the 2002-2003 actual level. This performance was slightly lower (\$419,000) than the budgeted estimate. As anticipated, the 2003-2004 decline was significantly less than the growth experienced in prior years: 2002-2003 (2.2%), 2001-2002 (26.6%), 2000-2001 (13.0%), 1998-1999 (8.3%), 1997-1998 (15.0%), and 1996-1997 (12.0%). For comparison purposes, however, these high growth rates are still higher than those experienced in 1995-1996 (1.7%) and the large drops experienced in both 1994-1995 and 1993-1994, the last comparable period of economic decline. The declines in those years resulted from the County Assessor actions accelerating the depreciation schedules used to value major business equipment items and economic conditions during that time period. Given current economic conditions, the 2004-2005 budgeted estimate allows for a drop of 10.1% from the 2003-2004 estimated collection level.

The Homeowner's Exemption Subvention represents the recovery of tax loss resulting from the per-household exemption granted by current State law. Receipts in this tax category of \$1.1 million were consistent with the budgeted estimate and reflect a slight 2.2% decrease from the 2002-2003 actual collection level.

Property Tax has experienced falling levels of growth over the last several years. Therefore, the 2004-2005 budget estimate for Property Tax predicts only an overall 2.4% increase over the 2003-2004 collection level.

Sales Tax

General Sales Tax collections for 2003-2004 of \$130.7 million were 2.5% above (up \$3.2 million) the 2002-2003 year-end level of \$127.5 million. This performance thankfully reflects an apparent bottoming out of the downward spiral that the local economy has experienced for the last three years. Second quarter sales tax receipts were up 2.7%, breaking a record run of ten straight down quarters of sales tax receipts.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Sales Tax (Cont'd.)

It should be noted, however, that although two quarters showed increases in receipts compared to the same quarter in the prior year, information from our Sales Tax consultants (MBIA) indicate that the increases were mainly attributable to one-time collections. After taking the one-time transactions into account, actual sales tax receipts for 2003-2004 were essentially flat.

This is positive news, as strange as it seems, as it may indicate that the downward momentum that we have experienced for almost three years may finally be slowing and we may be at or near the bottom of the economic downswing. How long we remain at the bottom before we see an upturn, however, remains to be seen. Because a three-month lag exists between the period of sales activity and when the City receives its quarterly Sales Tax allocation, the fourth quarter (April through June) was accrued based on projections. A 10.0% drop was built into this year-end, fourth quarter accrual based on the performance of the prior three quarters and economic reports indicating no significant improvement for that period.

Proposition 172 Half-Cent Sales Tax receipts of \$4.3 million were below (down 9.1% or \$428,000) the 2002-2003 collection level. This rate continues the 2002-2003 trend (down 2.4%), reflecting the impact of a sustained, slowed statewide economy and relatively weak performance compared to the recent prior years: 2001-2002 (down 1.6%) 2000-2001 (7.9%), 1999-2000 (12.4%), and 1998-1999 (2.7%).

Transient Occupancy Tax

Collections for the General Fund's portion (4.0%) of the City's Transient Occupancy Tax (TOT) were disappointing, totaling \$5.7 million and representing a 1.5% decline (down \$0.1 million) over the prior year level of \$5.8 million and a 6.6% decline (down \$406,000) from the budget estimate of \$6.1 million.

Furthermore, there is no sign that TOT collections should be expected to improve significantly in the near future. The average room rate decreased during last year from \$117 to \$110 while the occupancy rate declined slightly from 54.4% to 48.9%.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Transient Occupancy Tax (Cont'd.)

As this document went to print, we received July information. Although the average occupancy did rise slightly in July, the average room rate continued its decline, falling to \$109. Due to a continued decline in revenue through the end of the year, meeting the current budgeted estimate would require a 3.75% increase over 2003-2004, a result that currently seems unlikely.

Franchise Fees

Franchise fee collections of \$31.7 million were slightly below (2.1% or \$694,000) the 2003-2004 modified budget level of \$32.4 million. The variance between the actual receipts and budget was primarily due to higher than estimated collections in Gas Franchise Fees offset by lower than estimated collections in Electric, City Generated Tow, Cable Television, and Commercial Solid Waste Franchise Fees.

Electric and Gas Franchise Fees for 2003-2004 were based on activity that occurred during calendar year 2003. Electric Franchise Fees of \$13.4 million were 5.2% below (\$731,000) the 2003-2004 modified budget level of \$14.1 million and 7.1% below (\$1.0 million) the 2002-2003 level of \$14.4 million. This reduction largely reflects the impacts of the emergence of PG&E from bankruptcy proceedings. During the year, the California Public Utilities Commission (CPUC) approved a settlement agreement between Pacific Gas & Electric Company, its parent PG&E Corporation, and the CPUC, which paved the way for the utility to emerge from bankruptcy. This settlement agreement provided for significant rate reductions to the utility's customers. It should be noted that this information has been factored into estimates for the two electric revenue sources included in the 2004-2005 Adopted Budget.

Gas Franchise Fees of \$3.0 million were 22.3% above (\$545,000) the 2003-2004 modified budget level of \$2.4 million and 14.6% above (\$382,000) the 2002-2003 collection level of \$2.6 million. The steep increase from the prior year primarily reflects the rise in natural gas costs at the beginning of the year with market stabilization near the end of the year. It is expected that rates will remain stable in 2004-2005.

Cable Television Franchise Fee collections of \$4.5 million were 3.4% below (down \$159,000) the 2003-2004 modified budget level of \$4.7 million but 3.1% above (\$135,000) the 2002-2003 collection level of \$4.4 million. This performance reflects lower than anticipated growth in the number of cable television subscribers. City-Generated Tow Franchise Fee receipts of \$1.3 million ended the year significantly below (\$575,000) the 2002-2003 level of \$1.8 million but only slightly below (\$31,000) the 2003-2004 modified budget. Water Franchise Fee collections of \$194,000 were 19.8% above (\$32,000) the 2002-2003 level as well as 21.0% above the 2003-2004 modified budget level primarily due to increases in water rates during the year. Nitrogen Gas Pipeline Franchise Fee receipts of \$64,000 were 13.8% above budgeted expectations.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Franchise Fees (Cont'd.)

Commercial Solid Waste Franchise Fee (CSW) collections of \$9.2 million were 2.7% below (down \$254,000) the 2003-2004 modified budget level of \$9.5 million but 7.7% above (\$661,000) 2002-2003 actual collections of \$8.6 million. The increase in collections from the prior year is primarily driven by the combination of a stabilization of solid waste volume levels (previously dropping as diversion programs were implemented and the recession continued) and the shift in the revenue distribution between the Commercial Solid Waste Franchise Fee and AB 939 fees (also known as “commercial source reduction and recycling fee” collected and deposited in the Integrated Waste Management Fund) that was approved in the 2002-2003 Adopted Budget.

Utility Tax

The City assesses utility user taxes on four utilities: Electricity, Gas, Water, and Telephone. Overall, Utility Tax receipts of \$68.5 million were 5.4% above (\$3.4 million) the 2003-2004 modified budget level of \$65.0 million and 4.1% above (\$2.7 million) the 2002-2003 actual level. The performance compared to the 2002-2003 actual levels was driven by growth in Gas, Water, and Telephone Utility Tax receipts, offset by a drop in Electricity Utility Tax collections.

Electricity Utility Tax receipts of \$31.9 million were 1.0% above (\$307,000) the modified budget estimate of \$31.9 million and 4.9% below (down \$1.6 million) the 2002-2003 level. The shortfall in the Electricity Utility Tax is the result of a September announcement by the California Public Utilities Commission that ordered an unanticipated one-time rebate to PG&E customers. Also, as noted above, the CPUC approved a settlement agreement between Pacific Gas & Electric Company, its parent PG&E Corporation, and the CPUC that provides for significant rate reductions to the utility’s customers, which will likely result in ongoing reductions of both Electricity Franchise Fees and Utility Taxes.

Gas Utility Tax collections of \$7.9 million were 32.6% (\$1.9 million) above the modified budget level of \$5.9 million and 9.3% above (\$665,000) the prior year collection level of \$7.2 million. This growth over the prior year reflects an increase in gas rates that started in 2002-2003 and lasted well into 2003-2004. More recently, gas prices have started to drop and it is anticipated that gas prices will return to a more historically lower price range in 2004-2005. Unlike the electric utility category that regulates the prices paid by consumers, increases in the price of gas are passed on to customers throughout the year.

Water Utility Tax receipts of \$6.6 million were 5.0% above (\$313,000) the modified budget level of \$6.3 million and 20.3% above (\$1.1 million) the prior year collection level of \$5.5 million. This performance was primarily driven by increases in water rates coupled with a slight overall increase in consumption.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Utility Tax (Cont'd.)

Telephone Utility Tax collections of \$21.7 million were 4.5% above (\$925,000) the modified budget level of \$20.8 million and 13.2% above (\$2.5 million) the prior year collection level of \$19.2 million. This increase primarily reflects increased revenue from Telephone Utility Tax compliance reviews administered by the Finance Department, and \$1.0 million in one-time revenue related to the recognition of "New Realities" Telephone Tax revenue on interstate and international telephone calls that has been held for several years for possible refunds, and may now be legally released to the General Fund.

Licenses and Permits

Revenues in this category include the Cardroom Tax, Business Tax, a Disposal Facility Tax, Fire Permits, Building Permits, and various other health and public safety permits and licenses. Overall, Licenses and Permits collections of \$69.6 million were 2.9% above (\$1.9 million) the modified budget level of \$67.7 million and 13.3% above (\$8.2 million) the 2002-2003 collection level of \$61.4 million.

Cardroom Business Tax receipts of \$8.6 million ended the year 14.7% above (\$1.1 million) the modified budget estimate of \$7.5 million and 11.7% above (\$903,000) the prior year actual level of \$7.7 million. This performance, however, reflects a comparison with 2002-2003, which was affected by the Bay 101 bankruptcy filed in July 2002 where revenue was not received during that period. Business Tax revenues of \$12.8 million ended the year 3.0% above (\$377,000) the modified budget estimate of \$12.4 million and 10.44% above (\$1.2 million) the 2002-2003 collection level of \$11.6 million. Growth in Business Tax revenues was largely the one-time result of collection activity in the Finance Department utilizing the City's Business Information Management System (BIMS) that compares various lead source data files (e.g. State of California Franchise Tax Board, State Resale Permits, Fictitious Business Filings, etc.).

Disposal Facility Tax collections of \$14.8 million ended the year 5.7% below (\$893,000) the modified budget estimate of \$15.7 million and 9.1% below (\$1.5 million) the prior actual collection of \$16.3 million. This decline is primarily the result of a continuing dispute over the removal of the Alternate Daily Cover (ADC) exemption that was approved in the 2002-2003 Adopted Budget. BFI and Waste Management have taken issue with the removal of the Alternate Daily Cover exemption, and pending a resolution of this \$1.8 million dispute, by agreement with the City Attorney's Office, BFI and Waste Management paid amounts related to alternative daily cover into an escrow account, rather than the General Fund. The City Attorney's Office is still working to reach an agreement by which the disputed funds can be released to the General Fund. Should this issue not be resolved in the City's favor, the 2004-2005 budget could be at risk of a shortfall of as much as \$1.2 million.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Licenses and Permits (Cont'd.)

Fire Fee receipts of \$5.9 million at year-end were 7.1% below (down \$450,000) the 2003-2004 modified budget level of \$6.4 million, but 15.2% above (\$783,000) last year's level of \$5.1 million. The 2003-2004 adopted revenue estimate assumed a continuation of last year's activity levels, with higher fee levels approved by City Council. This revenue estimate, however, was revised downward in the Mid-Year Budget Review by \$438,000 when it was apparent that Fire fee revenues from development-related activities would fall below budgeted levels. With this reduction, the modified budget estimate still assumed an increase of 4.2% from 2002-2003 year-end receipts of \$6.1 million. With revenue levels continuing to fall below estimated levels, the following balancing measures were taken in the Mid-Year Budget Review to close the forecasted shortfall: elimination of 2.9 positions and a \$100,000 reduction of the Fire Fee Reserve. Based on 2003-2004 year-end actual expenditure savings and revenue information, an upward adjustment of \$157,000 to the Fire Fee Reserve is included in this document.

Building Permit receipts of \$22.3 million ended the year 6.3% above (\$1.3 million) the modified budget estimate of \$20.9 million and 35.5% above (\$5.8 million) the prior year level of \$16.4 million. The 2003-2004 estimate was built assuming a continuation of the activity levels of last year, with approved fee increases of approximately 20%. In addition, in 2003-2004 fees were developed to offer customers the option of purchasing a higher service level – guaranteed next day inspections and expedited plan checks. When these fees were developed, no additional staff was budgeted and no increase to revenue estimates was assumed. The availability of this option proved to be very popular with approximately 60% of Building customers utilizing one of the premium service options that were tailored to different size projects. As a result, as part of the 2003-2004 Mid-Year Budget Review, revenues and commensurate expenditures were increased by \$160,000 and increased again in June by \$1.5 million to reflect the anticipated year-end performance. When comparing the actual revenues with the actual costs for Building Permits, an excess of \$1.3 million results. As part of this document's proposed actions, therefore, a portion of the surplus is proposed to return to the existing reserve of \$4.7 million established for development-related activities. Another portion of the surplus will be used to offset additional staffing (the addition of two Associate Engineer positions recommended as part of this report) that is necessary to sustain the higher service levels requested by customers.

The revenue collection of \$5.2 million for various other health and public safety permits and licenses ended the year 10.7% above (\$502,000) the modified budget level of \$4.7 million, and 22.5% above the prior year collections (\$4.2 million). In addition, a net zero revenue estimate transfer of \$131,687 from the Departmental Charges revenue category to the License and Permits revenue category is recommended as part of this report to more accurately bring revenue estimates in line with year-end expectations.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Fines, Forfeitures and Penalties

The primary sources of revenue in this category are proceeds from Parking, Municipal Code and Vehicle Codes Fines, and Cardroom and Business Tax Penalties. Collections of \$13.9 million in this category were 9.2% above (\$1.2 million) the modified budget estimate of \$12.7 million and 13.5% above (\$1.7 million) prior year collections. Compared to the prior year, the positive variance was primarily driven by an increase in penalties and interest generated by the BIMS program mentioned above and to a lesser extent by increased collections from Parking Fines, Administrative Citation Fines, and receipts from Other Penalties.

Revenue from Use of Money and Property

The largest source of revenue in the Use of Money and Property category is interest income earned in the General Fund as well as in several capital and special funds. Collections of \$8.3 million ended the year slightly (2.1%) below (\$179,000) the modified budget level of \$8.5 million and well (30.6%) below (down \$3.7 million) the prior year collection level of \$12.0 million. The significant drop from the prior year level reflects the anticipated lower average cash balances and a lower average interest rates for the General Fund and several special funds.

Revenue from Local Agencies

This revenue category contains revenue received from a variety of other local government agencies. The seven primary sources of revenue are the reimbursement for City staff and overhead costs from the Redevelopment Agency; the reimbursement from the Redevelopment Agency for payment of the Convention Center debt service and past capital expenditures (which enables the City to fund the San José BEST Program); Enterprise Fund In-Lieu Charges; payments from the Central Fire District for fire services provided to County residents by the San José Fire Department; and payment for the County Paramedic Program.

Revenue collections of \$41.9 million in the Local Agencies category ended the year slightly (1.8%) below (down \$751,000) the modified budget and 2.7% below (down \$1.1 million) the 2002-2003 collection level. The lower collections over the prior year were primarily driven by the absence of reimbursement from the Redevelopment Agency for several capital projects (down \$0.7 million); and variances associated with a number of grants. In addition, a net zero revenue estimate transfer of \$123,979 from the Overhead Reimbursements revenue category to the Revenue from Local Agencies revenue category is recommended as part of this report to more accurately bring revenue estimates in line with year-end expectations.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Revenue from the State of California

Revenue collections of \$46.3 million in this category ended the year 4.8% below (\$2.3 million) the modified budget of \$48.6 million and 23.8% below (down \$14.5 million) the prior year actual level. This decline primarily reflects the budgeted impact of the reduction in Motor Vehicle In-Lieu Fee (VLF) payments included as part of the State budget balancing actions. Actions that were approved by the City Council revised the budget estimate accordingly, resulting in a \$10.5 million decrease to the VLF category. Performance compared to budget also reflected variances in State grant programs and because, subsequent to the September rebalancing actions, it was determined that a key assumption, based on State assurances, used to estimate prior year revenues in this category was proven to be incorrect. Based on statements from the State Controller, the Finance Department presumed that a VLF payment in the amount of \$1.3 million due to the City in June, which was delayed, would eventually be paid. An accrual in that amount was, as a result, included in the final 2002-2003 closing statements. We subsequently learned that, those assurances notwithstanding, this payment was not to be forthcoming. The result was an additional shortfall of \$1.3 million in current year collection totals over and above any shortfalls resulting from the actions that raised and then lowered VLF fees. Included in this report is a recommendation to rebudget the revenue and corresponding expenditure budget for various grants to 2004-2005 (net \$16,529), as described in section III.

Revenue from the Federal Government

The proceeds in this category are entirely composed of various grant programs. In 2003-2004, Revenue from the Federal Government of \$2.9 million was 59.5% below (down \$4.3 million) the modified budget estimate of \$7.2 million and 27.0% below (down \$617,000) the 2002-2003 collection level. The variance from budget was primarily related to two General Fund Capital grants, the COPS Interoperable Communications grant (\$3.7 million) and the Metropolitan Medical Strike Team grant (\$1.0 million), that are now expected to be received in 2004-2005 and were rebudgeted as part of the 2004-2005 Adopted Budget, as well as fluctuations in other grants calculated on a reimbursement basis. Included in this report is a recommendation to decrease the revenue and corresponding expenditure budget for various grants that were previously rebudgeted to 2004-2005 (down net \$463,241), as described in section III.

Departmental Charges

This category includes the fees and charges levied to recover costs of services provided by various City departments. Collections of \$27.4 million for Departmental Charges were 1.4% below (down \$377,000) the modified budget estimate and 19.7% below (down \$4.5 million) the 2002-2003 collection level. A net zero revenue estimate transfer of \$131,687 from the Departmental Charges revenue category to the License and Permits revenue category is recommended as part of this report to more accurately bring revenue estimates in line with year-end expectations. A brief description of the performance in each of the departmental fee categories is provided below.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Departmental Charges (Cont'd.)

- ***Miscellaneous Departmental Fees and Charges*** – Collections of \$2.7 million ended the year 1.5% below (down \$40,000) below the modified budget estimate, but 25.5% above (\$551,000) the prior year actual level of \$2.2 million. The variance from the prior year level was primarily driven by higher Solid Waste Enforcement Fee collections and higher settlements and reimbursements.
- ***Police Departmental Fees*** – Collections of \$1.4 million at year-end were 20.4% (\$363,000) lower than the modified budget estimate of \$1.8 million and 17.0% (\$290,000) lower than the \$1.7 million collected in 2002-2003. The lower than budgeted revenue for 2003-2004 was due to lower revenues received for Driving Under the Influence and for State reimbursements for Extradition and for Police Officer Standards and Training (POST).
- ***Public Works Departmental Fees*** – Collections for Public Works Departmental charges of \$7.9 million ended the year 9.9% above (\$713,000) the modified budget estimate of \$7.2 million and 33.9% above (\$2.0 million) the \$5.9 million collected in 2002-2003. Revenues for Engineering and Inspection Services, Flood/Laboratory Testing and Inspection, Geotechnical, and Development Review fee categories performed at higher than estimated levels. This performance was partially offset by lower than anticipated collections in Floodplain Management and Streetlight Design. Overall, revenue collections were above anticipated levels for the whole year. When comparing actual fee program revenues with fee program expenditures, a surplus of \$589,650 results and a corresponding increase to the Public Works Fee Reserve is recommended in this document.
- ***Transportation Departmental Fees*** – Collections of \$1.0 million ended the year 31.8% above (\$251,000) the modified budget estimate of \$792,000 and 31.8% above (\$252,000) the \$792,000 collected in 2002-2003. The strong performance of revenues in this category was primarily driven by unanticipated one-time receipts for Non-Residential Signal Review in the North Coyote Valley. Higher than anticipated collections for Miscellaneous Traffic Repairs, which are charges for repairs caused by accidents or other events, and higher than anticipated development activity resulting in increased collections in the Street Tree Planting category also contributed to the strong performance in Transportation Departmental Fees.
- ***Library Departmental Fees*** – Collections of \$1.2 million ended the year 22.1% above (\$215,000) the modified budget estimate of \$974,000 and 28.1% above (\$261,000) the \$928,000 collected in 2002-2003. The positive variance in fees from the prior year reflects the Library Department's significant increase in circulation.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Departmental Charges (Cont'd.)

- ***Planning Departmental Fees*** – Collections of \$5.5 million ended the year very close to the budget estimate of \$5.5 million, but 44.5% above (\$1.7 million) the prior year level. In line with the other development-related fee areas, the 2003-2004 estimate was built assuming a continuation of the activity levels of last year, with new fees and fee increases of 15% approved by City Council. Due to increased activity in several revenue categories, revenue estimates were increased two times during 2003-2004. During the Mid-Year Budget Review, revenues were increased by \$128,000 to reflect actions taken on October 21, 2003 by the Redevelopment Agency Board to rebalance its budget. Beginning in November 2003, the Redevelopment Agency began paying fees for Planning services rather than reimbursing the General Fund for these services. As a result, in June, revenues were increased by \$200,000 to reflect anticipated year-end performance. Based on year-end results, included in this document is a slight (\$7,000) downward adjustment to the Planning Fee Reserve.
- ***Parks, Recreation, and Neighborhood Services Departmental Fees*** – Collections of \$7.6 million ended the year below (down \$393,000) the modified budget estimate of \$8.0 million, but less than one percent above (\$52,000) the \$7.6 million collected in 2002-2003. The negative variance from modified budget was primarily driven by lower receipts from Happy Hollow Park and Zoo as well as other regional parks and facilities fees.

Other Revenue

Other Revenue receipts of \$15.8 million were 18.3% below (\$3.5 million) the modified budget level of \$19.3 million, but 32.9% above (\$3.9 million) the 2002-2003 collection level. The variance to budget was primarily related to an expected \$3.0 million sale of land that did not occur and reimbursement revenue for the Coyote Valley Specific Plan and the Evergreen Strategy (down \$1.9 million and \$0.9 million, respectively) that was only received to the extent that expenditures were incurred, with the remaining revenue and expenditures rebudgeted to 2004-2005. These decreases were offset by unbudgeted receipts from the pay-off of several Senior Staff Home Loans (\$1.8 million). A portion of the Home Loan repayments are recommended to be rebudgeted to 2004-2005 as described in section III.

The variance from the prior year consists mostly of one-time or higher revenues booked in 2003-2004, which primarily reflects the reimbursement revenue received for the Coyote Valley Specific Plan and the Evergreen Strategy (\$1.4 million) for work performed in 2003-2004 with the remaining receipts (\$1.7 million) rebudgeted as part of the 2004-2005 Adopted Budget, the unbudgeted receipts for the pay-off of several Senior Staff Home Loans (\$1.8 million), as well as one-time Sale of surplus Properties revenue (\$372,000), and an increase in investment cost reimbursement program (\$740,000). Included in this report is a recommendation to decrease the revenue and corresponding expenditure budget for various grants that were previously rebudgeted to 2004-2005 (down net \$54,280), as described in section III.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Overhead Reimbursements

Payments from other funds for overhead costs of \$32.5 million ended the year only slightly (1.6%) above (\$511,000) the modified budget estimate of \$32.0 million. This small variance represents the net result of a series of over- and under-budgeted performances from over 45 special and capital funds that reimburse the General Fund. These differences occurred where fund activities were over or under the level assumed in the modified budget estimates. The slight positive variance was primarily driven by higher than anticipated collections from various capital funds (e.g., Construction Excise Tax Fund, the Parks and Recreation Bond Projects Fund, the Branch Libraries Bond Projects Fund, the Neighborhood Security Bond Fund, and the Sewer Service and Use Charge Capital Improvement Fund) based on actual activity levels. In addition, a net zero revenue estimate transfer of \$123,979 from the Overhead Reimbursements revenue category to the Revenue from Local Agencies revenue category is recommended as part of this report to more accurately bring revenue estimates in line with year-end expectations.

Transfers

Revenue from the Transfers category of \$40.5 million ended the year 12.2% above (\$4.4 million) the modified budget level of \$36.1 million. The positive variance was primarily due to higher than budgeted revenue from the Construction and Conveyance Tax Fund used as part of the 2003-2004 balancing strategy (\$2.2 million) and an unbudgeted transfer of interest revenue from the Redevelopment Agency Capital Projects Fund (\$2.0 million).

Reimbursements for Services

Collections of \$17.6 million in the Reimbursements for Services category were 3.8% below (down \$684,000) the modified budget level. The negative variance was due to lower than anticipated reimbursements from the Gas Tax Funds.

Summary

Total revenue received by the General Fund for 2003-2004 (\$648.8 million) matched almost exactly the estimated level, exceeding the modified budget level by only \$112,000 or less than 0.02%, a very notable result given the diverse and unanticipated factors that affected our revenue streams last year, and the overall size of the General Fund. This result represents the net impact of a number of positive and negative variances already described in the previous sections. The Administration will continue to monitor collections actively for 2004-2005 through the Monthly Financial Report process, and return with recommendations for any revisions that seem appropriate during the Mid-Year Budget Review.